

***Annual Review  
Of  
Base Rates for Fuel Costs  
Of  
South Carolina Electric & Gas Company***

***Docket No. 98-002-E***

***HEARING DATE  
April 22, 1998***



***Testimony of  
Jacqueline R. Cherry  
Accounting Department***

***South Carolina Public Service Commission***

**TESTIMONY OF JACQUELINE R. CHERRY**  
**FOR**  
**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**  
**DOCKET NO. 98-002-E**  
**IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?**

**A.** My name is Jacqueline R. Cherry. My business address is 111 Doctors Circle, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Accounting Department, as a fiscal analyst/utilities accountant.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a B. S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by this Commission in February 1979, and have participated in cases involving gas, electric, telephone, water and wastewater utilities.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to summarize the results of the Accounting Staff's examination of South Carolina Electric & Gas Company's Fuel Adjustment Clause operation for the period March 1997 through April 1998. The findings of the examination are contained in the Accounting Department's section of the Commission Staff Report.

**Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

1 A. The Accounting Department Staff traced the information as filed in the Company's  
2 required monthly filing, to the Company's books and records. The current  
3 examination covered the period March 1997 through April 1998. However, since  
4 this current hearing was scheduled for April 1998, Staff's audit work did not  
5 include any testing for the months of March and April 1998. The purpose of the  
6 audit was to determine if South Carolina Electric & Gas Company had computed  
7 and applied the monthly Fuel Adjustment Clause in accordance with the approved  
8 clause. To accomplish this, Staff examined the components surrounding the  
9 operation of the clause.

10 Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE  
11 SCOPE OF THE AUDIT?

12 A. The examination consisted of the following:

- 13 1. Analysis of Account # 151 – Fuel Stock
- 14 2. Sample of Receipts to the Fuel Stock Account – Account # 151
- 15 3. Verification of Charges to Nuclear Fuel Expense, Account # 518
- 16 4. Verification of Purchased Power & Interchange
- 17 5. Verification of KWH Sales
- 18 6. Analysis of Spot Coal Purchasing Procedures
- 19 7. Review of the CSX Transportation Settlement Agreement
- 20 8. Recomputation of Fuel Adjustment Factor and Verification of Deferred  
21 Fuel Costs
- 22 9. Recomputation of True-up for the (Over)Under-Recovered Fuel Costs
- 23 10. Details of Fuel Costs

24 Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW OF THE  
25 CSX TRANSPORTATION SETTLEMENT AGREEMENT?

26 A. PSC Order No. 98-209, Docket No. 98-115-E, dated March 19, 1998, granted South  
27 Carolina Electric & Gas Company's (SCE&G or the Company) request for a  
28 Commission accounting order, which would give SCE&G authorization to defer and  
29 to amortize a one-time payment incurred by the Company as the result of a  
30 Settlement Agreement, dated January 28, 1998, between SCE&G and CSX

1       Transportation, Inc. CSX Transportation is one of the railroads that delivers coal to  
2       the Company's steam production facilities. The agreement calls for the Company to  
3       make a one-time payment to the railroad. In return, the Company has received  
4       reductions in coal freight rates, decreased minimum tonnage requirements and  
5       certain other favorable financial and operating concessions that provide savings  
6       substantially in excess of the one-time payment, according to SCE&G. By  
7       agreement of the parties and Order of the U.S. District Court, the specific terms of  
8       the agreement are confidential.

9       The Company proposed that it be allowed to defer the one-time payment by  
10      charging Account No. 182.3 – Other Regulatory Assets. The balance in Account  
11      No. 182.3 would be amortized monthly to Account No. 501 – Fuel Expense in an  
12      amount equal to the savings realized through deliveries of coal at the reduced freight  
13      rates. It is expected that this balance would be written off in approximately three  
14      years, after which time the reductions in freight rates would serve to reduce ongoing  
15      fuel costs. Meanwhile, according to the Company, the savings derived from other  
16      provisions of the agreement, such as those resulting from decreased minimum  
17      tonnage requirements, will be immediately reflected in lower fuel costs, and thereby  
18      provide benefits to customers currently.

19      During this audit review period of the Company's fuel adjustment clause,  
20      March 1997 through February 1998, Staff reviewed the freight savings, and thereby,  
21      the amortized amounts, by comparing the original CSX Transportation contract  
22      freight rates to the revised Settlement Agreement freight rates. Staff applied the  
23      difference between the rates to the applicable railroad coal tonnage deliveries. Since  
24      the agreement has only been in effect as of the end of January 1998, there was only  
25      one month's amortization, February 1998, in this fuel review period. The amortized  
26      amount (freight savings) initially booked in February 1998 to Account No. 501  
27      totaled \$482,493.04. However, after the Company reviewed the coal deliveries that  
28      should be associated with the "old" freight rates rather than the Settlement rates, the  
29      Company revised its February 1998 amortization amount to \$460,743.31. The

1 Company will book an adjusting entry in March 1998 of (\$21,749.73) to reflect the  
2 February revision.

3 **Q. WITH REGARD TO THE TRUE-UP OF (OVER)UNDER-RECOVERED**  
4 **FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S**  
5 **COMPUTATION?**

6 **A.** Staff analyzed the cumulative over-recovery of fuel costs that the Company had  
7 incurred for the period March 1997 through February 1998 which totaled \$596,797.  
8 Staff added the projected over-recovery of \$194,040 for the month of March 1998  
9 and the projected over-recovery of \$847,360 for April 1998 to arrive at a cumulative  
10 over-recovery of \$1,638,197. The Company's cumulative over-recovery as of April  
11 1998, per its testimony in Docket No. 98-002-E, totals \$2,609,904. The difference  
12 between the Company's and the Staff's cumulative over-recovery balances as of  
13 actual February 1998 and as of estimated April 1998 totals \$971,707. Staff's Fossil  
14 Fuel Burned Costs figures for April 1997 through February 1998 differs from the  
15 Company's figures. Staff's figures, per Staff's report, reflect corrections for  
16 miscalculations made to fossil fuel costs. Staff's Nuclear Fuel Costs figures for  
17 March 1997, June 1997 and January 1998 differ from the Company's figures.  
18 Staff's figures reflect corrections for revised (updated monthly information) nuclear  
19 fuel costs. Also, Staff's Purchased Power figure for August 1997 differs from the  
20 Company's figure. Staff's figure reflects a correction to a purchase power rate used  
21 in the computation for several purchased power costs. It should be noted that the  
22 Company will true-up the cumulative difference of \$971,707, on a per books basis,  
23 by the next fuel review period. As stated in South Carolina Electric & Gas  
24 Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to  
25 the extent determined reasonable and proper by the Commission. Accordingly, the  
26 Commission should consider the over-recovery of \$1,638,197 along with the  
27 anticipated fuel costs for the period May 1, 1998 to April 30, 1999, for the purpose  
28 of determining the base cost of fuel in base rates effective May 1, 1998. This  
29 \$1,638,197 over-recovery figure was provided to the Commission's Utilities  
30 Department.

1 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING**  
2 **STAFF EXHIBITS?**

3 **A.** Staff prepared exhibits from South Carolina Electric & Gas Company's books and  
4 records reflecting fuel costs during the review period.

5 Specifically, these exhibits are as follows:

6 Exhibit A: Fossil Fuel Stock Report

7 Exhibit B: Received Coal-Cost Per Ton (Per Plant)

8 Exhibit C: Total Received & Weighted Average Cost

9 Exhibit D: Received Coal-Cost Per Ton Comparison

10 Exhibit E: Burned Cost-Consumed Generation

11 Exhibit F: Cost of Fuel

12 Exhibit G: Factor Computation

13 Exhibit H: Computation of Unbilled Revenue

14 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE ACCOUNTING**  
15 **DEPARTMENT'S AUDIT?**

16 **A.** Based on the Accounting Staff's examination of South Carolina Electric & Gas  
17 Company's books and records, and the utilization of the fuel cost recovery  
18 mechanism as directed by the Commission, the Accounting Department is of the  
19 opinion that the Company has complied with the directives (per the Fuel Adjustment  
20 Clause) of the Commission.

21 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes, it does.